CALIFORNIA LEGISLATURE—2001–02 REGULAR SESSION

ASSEMBLY BILL No. 1250

Introduced by Assembly Member Florez

February 23, 2001

An act to add Sections 17052.14 and 23605 to the Revenue and Taxation Code, relating to energy resources, and making an appropriation therefor.

LEGISLATIVE COUNSEL'S DIGEST

AB 1250, as introduced, Florez. Energy resources: income and bank and corporation taxes: marginal wells.

Under existing law, funds in the Petroleum Violation Escrow Account, as defined in federal law, consisting of federal oil overcharge funds, have been disbursed to this state by the federal government and deposited in the Federal Trust Fund in the State Treasury, a continuously appropriated fund.

This bill would, to the extent permitted by federal law, appropriate an unspecified amount of those funds, without regard to fiscal year, to the State Energy Resources Conservation and Development Commission for the purpose of a grant to partially support the Oil and Natural Gas Technology and Information Center, to be disbursed by the Controller subject to approval by the Director of Finance as to which court judgment or federal agency order is the proper source of the funds.

The Personal Income Tax Law and the Bank and Corporation Tax Law authorize various credits against the taxes imposed by those laws.

This bill would authorize a credit, calculated under a specified formula, against those taxes for each taxable year beginning on or after January 1, 2001, for qualified crude oil and natural gas production from marginal wells, as defined. The bill would provide for the annual adjustment of the credit formula in accordance with the inflation adjustment, if any, as set forth in a specified provision of the Internal Revenue Code.

Vote: majority. Appropriation: yes. Fiscal committee: yes. State-mandated local program: no.

The people of the State of California do enact as follows:

SECTION 1. Section 17052.14 is added to the Revenue and Taxation Code, to read:

17052.14. (a) For each taxable year beginning on or after January 1, 2001, there shall be allowed as a credit against the ‘‘net tax,’’ as defined in Section 17039, an amount, as specified in subdivision (c), for qualified crude oil production and qualified natural gas production during the taxable year.

(b) For purposes of this section:

(1) ‘‘Qualified crude oil production’’ means domestic crude oil, as defined under Section 613A(e) of the Internal Revenue Code, that is produced from a marginal well.

(2) ‘‘Qualified natural gas production’’ means natural gas, as defined under Section 613A(e) of the Internal Revenue Code, that is produced from a marginal well.

(3) ‘‘Marginal well’’ means a domestic well, that during the taxable year, has marginal production as defined under Section 613A(c)(6) of the Internal Revenue Code.

(4) ‘‘Reference price’’ means, with respect to any calendar year, in the case of:

(A) Qualified crude oil production, the reference price determined under Section 29(d)(2)(C) of the Internal Revenue Code.

(B) Qualified natural gas production, the Secretary of the Treasury’s estimate, as computed in accordance with Section 29(d)(2)(C) of the Internal Revenue Code, of the annual average wellhead price per 1,000 cubic feet of all domestic natural gas.

(c) The credit amount shall be computed as follows:

(1) (A) In the case of qualified crude oil production, the credit is three dollars ($3) per barrel.

(B) This credit shall be reduced, but not below zero, by an amount that bears the same ratio to that amount as the excess, if any, of the applicable reference price above fourteen dollars ($14), bears to three dollars ($3).

(2) (A) In the case of qualified natural gas production, the credit is fifty cents ($0.50) per 1,000 cubic feet.

(B) This credit shall be reduced, but not below zero, by an amount that bears the same ratio to that amount to that amount as the excess, if any, of the applicable reference price above one dollar and fifty-six cents ($1.56), bears to thirty-three cents ($0.33).

(3) The applicable reference price for a taxable year is the reference price for the calendar year preceding the calendar year in which the taxable year begins.

(4) In the case of any taxable year beginning in a calendar year after 2001, the base credit amounts, specified in paragraphs (1) and (2) of this subdivision, shall be increased by an amount equal to the dollar amount of the credit multiplied by the inflation adjustment factor for each calendar year as determined under Section 43(b)(3)(B) of the Internal Revenue Code by substituting the year 1990 with the year 2001.

(d) (1) This credit does not apply to any otherwise qualified crude oil production or natural gas production, if during the taxable year for which the credit is claimed, the well from which these products are obtained produces in excess of 1,095 barrels or barrel equivalents.

(2) In the case of a short taxable year, the limitation under this subdivision shall be proportionately reduced to reflect the ratio that the number of days in the taxable year bears to 365.

(3) In the case of a well that is not capable of production during each day of the taxable year, the limitation under this subdivision shall be proportionately reduced to reflect the ratio that the number of days of production bears to the entire taxable year.

(e) In the case where the credit allowed by this section exceeds the ‘‘net tax,’’ the excess may be carried over to reduce the ‘‘net tax’’ in the following year, and succeeding years if necessary, until the credit is exhausted.

SEC. 2. Section 23605 is added to the Revenue and Taxation Code, to read:

23605. (a) For each taxable year beginning on or after January 1, 2001, there shall be allowed as a credit against the ‘‘tax,’’ as defined in Section 23036, an amount, as specified in subdivision (c), for qualified crude oil production and qualified natural gas production during the taxable year.

(b) For purposes of this section:

(1) ‘‘Qualified crude oil production’’ means domestic crude oil, as defined under Section 613A(e) of the Internal Revenue Code, that is produced from a marginal well.

(2) ‘‘Qualified natural gas production’’ means natural gas, as defined under Section 613A(e) of the Internal Revenue Code, that is produced from a marginal well.

(3) ‘‘Marginal well’’ means a domestic well, that during the taxable year, has marginal production as defined under Section 613A(c)(6) of the Internal Revenue Code.

(4) ‘‘Reference price’’ means, with respect to any calendar year, in the case of:

(A) Qualified crude oil production, the reference price determined under Section 29(d)(2)(C) of the Internal Revenue Code.

(B) Qualified natural gas production, the Secretary of the Treasury’s estimate, as computed in accordance with Section 29(d)(2)(C) of the Internal Revenue Code, of the annual average wellhead price per 1,000 cubic feet of all domestic natural gas.

(c) The credit amount shall be computed as follows:

(1) (A) In the case of qualified crude oil production, the credit is three dollars ($3) per barrel.

(B) This credit shall be reduced, but not below zero, by an amount that bears the same ratio to that amount as the excess, if any, of the applicable reference price above fourteen dollars ($14), bears to three dollars ($3).

(2) (A) In the case of qualified natural gas production, the credit is fifty cents ($0.50) per 1,000 cubic feet.

(B) This credit shall be reduced, but not below zero, by an amount that bears the same ratio to that amount as the excess, if any, of the applicable reference price above one dollar and fifty-six cents ($1.56), bears to thirty-three cents ($0.33).

(3) The applicable reference price for a taxable year is the reference price for the calendar year preceding the calendar year in which the taxable year begins.

(4) In the case of any taxable year beginning in a calendar year after 2001, the base credit amounts specified in paragraphs (1) and (2) of this subdivision, shall be increased by an amount equal to the

dollar amount of the credit multiplied by the inflation adjustment factor for each calendar year as determined under Section 43(b)(3)(B) of the Internal Revenue Code by substituting the year 1990 with the year 2001.

(d) (1) This credit does not apply to any otherwise qualified crude oil production or natural gas production, if during the taxable year for which the credit is claimed, the well from which these products are obtained produces in excess of 1,095 barrels or barrel equivalents.

(2) In the case of a short taxable year, the limitation under this subdivision shall be proportionately reduced to reflect the ratio that the number of days in the taxable year bears to 365.

(3) In the case of a well that is not capable of production during each day of the taxable year the limitation under this subdivision shall be proportionately reduced to reflect the ratio that the number of days of production bears to the entire taxable year.

(e) In the case where the credit allowed by this section exceeds the ‘‘tax,’’ the excess may be carried over to reduce the ‘‘tax’’ in the following year, and succeeding years if necessary, until the credit is exhausted.

SEC. 3. (a) Notwithstanding Sections 13340 and 16361 of the Government Code, and to the extent permitted by federal law, the sum of ____ dollars ($____) of the money in the Federal Trust Fund, created by Section 16360 of the Government Code, received by the state from federal oil overcharge funds in the Petroleum Violation Escrow Account, as defined in Section 155 of the Further Continuing Appropriations Act of 1983 (P.L. 97-377) or other federal law, and consisting of federal oil overcharge funds available pursuant to court judgments or federal agency orders, is hereby appropriated, without regard to fiscal year, to the State Energy Resources Conservation and Development Commission for the purpose of providing a grant to partially support the Petroleum Technology Transfer Council (PTTC).

(b) The money appropriated pursuant to subdivision (a) shall be disbursed by the Controller, subject to the approval by the Director of Finance as to which court judgment or federal agency is the proper source of those funds.

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